



2011 ComEd Energy Efficiency and Demand Response Adjustment –Cost Recovery Review

August 29, 2011

INTERNAL AUDIT

Executive Overview

Background

Illinois Public Act 95-0481, section 12-103 authorized Illinois electric utility companies to apply a charge on retail customers' monthly bills for approved energy efficiency and demand response measures (programs). As a result, ComEd established the Energy Efficiency & Demand Response Adjustment Rider (Rider EDA) to recover costs incurred in administration of the "ComEd 2008-2010 Energy Efficiency and Demand Response Plan," which was approved by the ICC Order issued on February 6, 2008.

Each year, on or before May 20, ComEd must submit an informational filing with the ICC including the calculation of each EDA. ComEd applies three separate EDA's: EDA-R, EDA-NS and EDA-NL. EDA-R applies to residential customers, EDA-NS applies to small commercial and lighting customers and EDA-NL applies to large commercial, industrial and railroad customers. The EDA calculation considers incremental projected costs, reconciliation factors (including the Automatic Reconciliation Factor (ARF) equal to the cumulative over collection or under collection from applicable retail customers), projected energy in kilowatt hours, and an uncollectible factor. Costs reimbursed through other programs cannot be considered in the calculation of Rider EDA.

To assist in the execution of the energy efficiency programs, ComEd utilizes third party contractors specializing in the energy efficiency field. KEMA, Nexant and ECW are the third party contractors hired to implement the commercial and industrial programs, and APT, Honeywell and JACO are the third party contractors hired to implement the residential programs. Additionally, Energy Efficiency implemented the Frontier system in February 2009. Frontier is a tool utilized by ComEd and its contractors to monitor and report on program participation.

The ICC requires ComEd to submit an annual report on or before August 31 for Rider EDA. The annual report must include the results of an internal audit verified by an officer of the Company.

Objective and Scope

As required by the ICC and in accordance with Rider EDA, Internal Audit performed testing which validated:

- Incremental costs recovered through the Rider were associated with the programs and were not recovered through other approved tariffs,
- Retail customer bills accurately reflected the appropriate EDA rate,
- Billed Revenue collected through the Rider was correctly stated, and
- Funds from any source other than those collected through the Rider were identified and reflected in the computation of the EDA and Automatic Reconciliation Factor (ARF).

All testing focused on the Plan Year 3, which is the timeframe June 1, 2010 through May 31, 2011.

Internal Audit performed this review using the Company's General Ledger (GL) and documents provided by ComEd Revenue Accounting, General Accounting, Retail Rates and Energy Efficiency Program Planning personnel. Internal Audit also used source system data from Customer Information and Marketing System (CIMS), which is ComEd's retail billing system. These sources were used to validate the costs incurred and billed revenues collected associated with the energy efficiency programs.

Results

In our opinion, based on testing performed for the 12-month period of June 2010 through May 2011, the cost recovery process performed by ComEd Accounting, Retail Rates, and Regulatory is in compliance with the requirements of Rider EDA as defined in the scope section of this report.

Internal Audit's testing concluded that ComEd recovered expenses through the Rider EDA were related to energy efficiency programs and appropriately excluded expenses that were not related to the Rider EDA. Additionally, billed revenue related to the Rider EDA was stated correctly and retail customer bills accurately reflected the appropriate EDA rates.

Internal Audit appreciates the assistance of Management and personnel in completion of this review.

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